

# **Fiscal Services Division Legislative Services Agency Fiscal Note**

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HF 2262 - Public Pensions (LSB 5332 HV)

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Fiscal Note Version - As Amended and Passed by the Senate

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## **Description**

House File 2262, as amended and passed by the Senate, makes substantive changes to the Iowa Public Employees' Retirement System (IPERS) and the Iowa Judicial Retirement System. This Fiscal Note will examine the substantive changes with a significant cost.

## **IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)**

The Bill makes numerous changes in order to establish a separate class of IPERS membership for sheriffs and sheriffs' deputies apart from airport firefighters. Airport firefighters are placed in the Protection Occupation class.

The Bill permits sheriffs and sheriffs' deputies who have at least 22 years of service to retire if they are, at least 54 years of age on or after July 1, 2004, at least 53 years of age on or after July 1, 2005, at least 52 years of age on or after July 1, 2006, at least 51 years of age on or after July 1, 2007, or at least 50 years of age on or after July 1, 2008, instead of waiting to the age of 55.

The Bill further provides for a change in the distribution of contributions between sheriffs and sheriffs' deputies employers and employees. Each employer and employee will contribute 50.0% of the actuarially determined cost. Currently, the employer pays 60.0% and the employee contributes 40.0%.

The Bill reduces from the current four months to one month; the time a licensed health care professional at a public hospital must leave covered employment in order to continue to receive a retirement benefit after returning to covered employment. This change is effective for retirements during FY 2005 and FY 2006. A study and report on Licensed Health Care Professionals - Bona Fide Retirement is being requested to determine the impact of this change.

## **Assumptions**

1. A 4.00% annual payroll growth is assumed.
2. The number of active members in each class and covered payroll for FY 2004 are as follows:

<b><u>Employer</u></b>	<b><u>Membership Class</u></b>	<b><u>Active Members</u></b>	<b><u>FY 2004 Covered Payroll</u></b>
State	Airport Firefighters	57	\$ 2.5 Million
County and Cities	Sheriffs and Sheriffs' Deputies	1,555	\$ 70.9 Million

3. Contribution rates will only be impacted by the changes in the Bill.
4. The number of members in each class will remain constant.
5. Sheriffs and sheriffs' deputies and airport firefighters members would contribute 5.10% of covered wage and employers would contribute 7.66% in FY 2005, without the changes in this Bill.
6. Protection Occupation members would contribute 6.16% of covered wage and employers would contribute 9.23% in FY 2005, without the changes in this Bill.
7. The retirement rate for employees ages 50 through 54 is 30.0% for sheriffs and sheriffs' deputies.
8. The employer contribution for sheriffs and sheriffs' deputies will increase by 0.755% (a decrease of 1.280% due to the change in the contribution percentages and an increase of 2.035% due to the benefit enhancement) to 8.415%, by the completion of the phase-in for FY 2009.
9. The employee contributions for sheriffs and sheriffs' deputies will increase by 3.315% (an increase of 1.280% due to the change in the contribution percentages and an increase of 2.035% due to the benefit enhancement) to 8.415%, by the completion of the phase-in for FY 2009.

### **Fiscal Impact**

Placing the airport firefighters in the Protection Occupation class will result in the following contribution changes: The combined employer and employee rate will increase from 12.76% to 15.39% of covered wage beginning in FY 2005. The employer will pay 9.23%, an increase of 1.57% or a total State increase of \$41,000 for all airport firefighters. The employees will pay 6.16%, an increase of 1.06% or \$28,000 for all airport firefighter employees. The average employee will contribute an estimated additional \$500 beginning in FY 2005.

Changing the retirement age for sheriffs and sheriffs' deputies and the distribution of the contributions between employers and employees will result in the following contribution changes: The combined employer and employee rate will increase from 12.76% to 16.83% of covered wage by the completion of the phase-in for FY 2009. The employer will pay 8.415%, an increase of 0.755% or \$652,000, and the employees will pay 8.415%, an increase of 3.315% or \$2.9 million by the completion of the phase-in for FY 2009. The average employee will contribute an estimated additional \$1,800 by the completion of the phase-in for FY 2009. Lower paid employees will pay less and higher paid employee will pay more. The employers will contribute an additional average of \$400 annually for each employee by the completion of the phase-in for FY 2009.

The fiscal impact of the change for licensed health care professional on employers and employees cannot be determined without knowing, the size of the group, their covered payroll, and which employees would take advantage of the program. A study of this group is requested in this Bill.

The study and report on Licensed Health Care Professionals - Bona Fide Retirement including outside consultants will cost \$16,000 in FY 2004, \$5,000 in FY 2005, and \$4,000 in FY 2006. The total cost of the study is an estimated \$25,000.

### **JUDICIAL RETIREMENT SYSTEM**

The Bill reduces the vesting requirement from six years to four years for any judges that have completed four years of service at the time this Bill is enacted. When a judge becomes vested, the judge is eligible to obtain a retirement annuity rather than the return of the judge's contribution.

### **Assumptions**

1. Most judges serve at least six years before retirement.
2. Currently 20 of the 194 judges have provided between four years and six years of service.
3. The number of judges that retire under the provisions of this act is unknown.
4. A district court judge retiring under the provisions of this Bill, with four years of service, would receive an annual benefit of approximately \$13,000 at age 65 or upon disability.
5. A judge contributes 5.0% of covered wage annually and a district court judge would have contributed approximately \$22,000 over the past four years.

### **Fiscal Impact**

While the number of judges that will retire under the provisions of this Bill is unknown, it is not anticipated to have a significant fiscal impact on the System.

### **Sources**

Iowa Public Employees' Retirement System (IPERS)  
Milliman USA Consultants and Actuaries  
Iowa Judicial Retirement System

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Dennis C Prouty

April 7, 2004

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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